

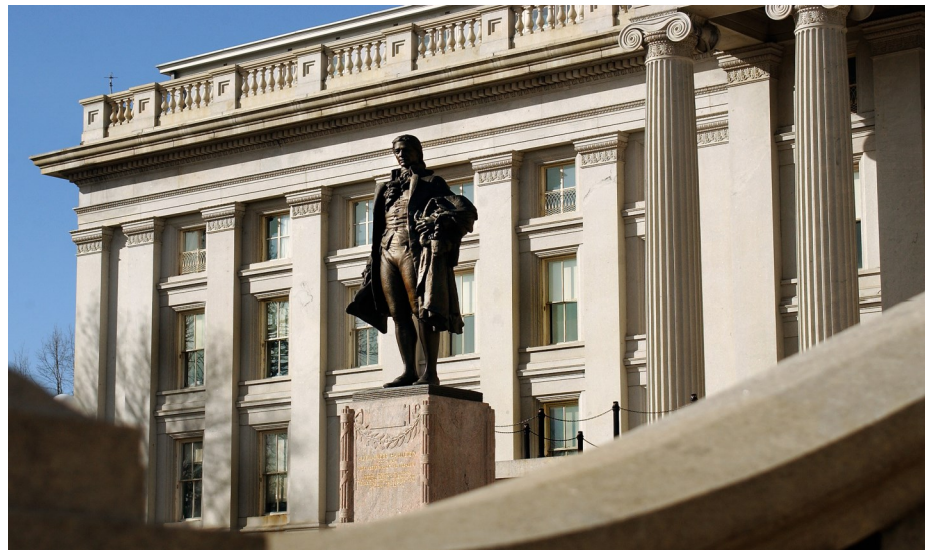
Solomon Hess SBA Loan Fund Raises Preferred Return for 3Q 2016

Solomon Hess Capital Management (“Solomon Hess”) raised the Preferred Return of the Solomon Hess SBA Loan Fund (“SBA Loan Fund” or “the Fund”) to 1.50% for the third quarter. The Preferred Return is annualized and net of all fees and expenses. This marks the second consecutive increase in 2016. The SBA Loan Fund acquires the federally guaranteed portion of floating rate SBA 7 (a) loans in the assessment areas of CRA-motivated bank investors. Since inception, the Fund has provided over \$1 billion in capital to support small businesses and contributed to the creation and/or retention of over 30,000 jobs nationwide. Currently, the Fund’s portfolio owns 776 small business loans that support 12,458 jobs. These loans are located in 42 states and represent over 260 different types of businesses.

“The Solomon Hess SBA Loan Fund was started in 2004 and has thus far always paid investors the Preferred Return. The Fund has over \$400 million in assets and 100 bank investors. With an \$11.9 million operating reserve, the Fund is now stronger than ever,” said William Einstein, Managing Director and Chief Financial Officer of Solomon Hess Capital Management. The Preferred Return is subject to change. Past performance is not indicative of future results. ■

Inside

Interagency Q&A	1-2
Manager’s Mailbag	2
Loan Profiles	3
Conference Schedule	4



Agencies finalized new and revised CRA Q&As in July. Above, statue of Alexander Hamilton in front of United States Treasury Building in Washington, DC.

New Interagency Q&As Clarify and Expand Definition of “Activities that Promote Economic Development” for Community Development

Agencies Finalize New and Revised CRA Q&As - Federal banking regulators, namely the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Reserve Board (collectively, “the Agencies”), made revisions to the Interagency Questions and Answers regarding Community Reinvestment (“the Q&A”) proposed in 2014. A single set of Q&As was published on July 25, 2016 which consolidates the new Q&As with those previously issued.

The Agencies addressed community development-related issues and the qualitative aspects of performance, including innovative or flexible lending practices and the responsiveness and innovativeness of an institution’s loans, qualified investments, and community development services.

Community Development -

Community development is a critical component of community reinvestment and is considered in the CRA evaluations of financial institutions. The Agencies believe that community development generally improves the circumstances for low- and moderate-income (“LMI”) individuals by stabilizing and revitalizing the communities in which they live and work. The Agencies note that the existing guidance provides that to meet the purpose test for CRA-eligible community development, the institution’s activity must promote economic development. The Agencies also agree that guidance may benefit from additional clarification to facilitate consistent application of the “purpose test” and to ensure that all activities promoting economic development are considered. *(continued on next page)*

As such, revisions to existing Q&A_12(g)(3) were adopted to clarify what is meant by the phrase “promote economic development” and to better align this Q&A with other guidance provided in existing Q&As regarding consideration of economic development activities undertaken by financial institutions.

The Revision - Existing Q&A _12(g)(3) stated that activities promote economic development by financing small businesses or farms if they meet two “tests”: (i) a “size test” and (ii) a “purpose test,” which is intended to ensure that a financial institution’s activities promote economic development consistent with the CRA regulations. The revision:

1) Adds a presumption for loans to or investments in a Community Development Financial Institution (“CDFI”) that finances small businesses or farms to qualify. The existing Q&A had established similar presumptions for Small Business Development Companies, Small Business Companies, Small Business Investment Companies, Rural Business Investment Companies, New Markets Tax Credits (“NMTC”) community development entities, and New Markets Venture Capital Companies.

2) Clarifies that job creation/retention/improvement for low- or moderate-income persons does not require the jobs to pay low wages. The specification has been eliminated to allow for activities in LMI geographies or that could be expected to support jobs for LMI persons in the future.

3) The list of activities considered to promote economic development if they support permanent job creation/retention/improvement is expanded to include financing intermediaries that lend to, invest in, provide technical assistance to start-ups or recently formed small businesses or small farms. The explanation of the changes provided by Agencies makes it clear that a bank’s direct loan to a small business would be counted under its normal lending test activities, but an investment in an entity that provides loans to small businesses would be considered under the community development test.

4) Specifically includes activities supporting Federal, state, local or tribal economic initiatives with provisions for creating or improving access by LMI persons to jobs, job training or workforce development programs.

Implications—These revisions reinforce how an investment in the Solomon Hess SBA Loan Fund should be considered under the community

development test for CRA. Moreover, as the Fund is an NMTC Equity Allocatee and a Community Development Entity as designated by the CDFI Fund, investment should be presumed to promote economic development in the context of community development. Lastly, the expanded activities list that promote economic development creates new opportunities for the SBA Loan Fund to invest in loans to start-ups or recently formed small businesses or farms. The SBA Loan Fund portfolio is built loan-by-loan so we have the ability to modify our loan screening process to take advantage of this revision to the benefit of our investors. We will look to the Agencies for further guidance and continue to work with our investors to ensure that we are meeting their investment criteria for targeted CRA.

Banking institutions should be mindful that each of the Agencies may interpret the Q&A differently so it is important to check in with your regulator to see if they concur with this interpretation of the revised Q&A. ■

Sources:

- 75 Federal Register 53838 (September 10,2014).
- 81 Federal Register 48506 (July, 2016).

“Banking Agencies Finalize New and Revised CRA Q&As.” National Association of Housing Lenders, 1 August 2016.

Manager’s Mailbag SBA Loan Fund Loan Screening Process

QUESTION: What characteristics does a community development loan have to have to qualify for the Solomon Hess SBA Loan Fund?

ANSWER: The Fund invests in the federally guaranteed portion of community development qualified SBA 7(a) loans in the secondary market on behalf of our investors. The Fund’s nationwide portfolio has been built loan by loan and we deploy a selective process. Overall, we look for loans with good impact stories in LMI geographies that go beyond CRA requirements and that will also enhance the economics and diversity of the portfolio.

We ensure that each loan qualifies for CRA and is in the target assessment areas of our investors. Then we look for loans that will support the creation and/or retention of local jobs or that will have a positive environmental or social impact in their communities. We also evaluate loan economics to ensure that new loans enhance the overall portfolio from an economic perspective. For example, we may favor a loan with a low gross rate on a business that is harder to refinance. It is our practice to avoid loans in what are considered “sin” businesses such as liquor stores, pawn shops and the like.

Thus far, all of our investors who have sought CRA credit have received positive consideration from their regulators.

“While not explicitly stated in the CRA Q&A, we believe the Agencies appreciate banks that invest in businesses that impact their communities positively,” said Bill Einstein, Managing Director and Chief Financial Officer of Solomon Hess Capital Management. Investment in the Fund does not guarantee positive consideration for CRA. ■

Manager's Mailbag provides an opportunity for CRA professionals to ask the managers of Solomon Hess Capital Management a question relating to the SBA Loan Fund or current CRA landscape. Have a question you'd like us to address? Email us and we'll try to include it in a future newsletter!

Email: Mgolai@SolomonHess.com

Small Business Loan Profiles: Potter Violin Company and Southwest Autism and Behavioral Solutions



Potter Violin Company not only sells, rents and repairs stringed instruments but also provides a venue for music appreciation in the Takoma Park community. Impact of the SBA Loan Fund's investment was the creation/retention of 42 jobs.

Potter Violin Company, Takoma Park, MD - The Potter Violin Company ("Potter's") is a specialty retail, rental and repair shop for fine bowed string instruments (violins, violas, cellos and basses). The company, affectionately called "Potter's" by its long-time customers, was established in 1996 by Dalton Potter. Today, Potter's has become one of the largest purveyors of instruments and bows to customers of all ages and skill levels. The business moved into its new Takoma Park show room and recital hall in May.

Potter started the business out of his home with a focus on students learning the instruments. As the business grew, Potter converted a carpet store on Wisconsin Avenue into a cello and rental annex. Potter's expanded its offerings by finding instruments for high-level professionals in the National Symphony Orchestra ("NSO") and others. "Basically, we take care of everything from little kids with pigtailed to people with tux and tails," Potter said about his customer base.

All of Potter's sales staffers must play professionally or teach. Potter's employs eight luthiers, who specialize in building and repairing string instruments. The specific nature of the work makes it difficult to find talented employees. Employee turnover is about one every 15 years.

Potter's new location is Blair Mansion, a historic landmark in Silver Spring. The new location houses a workshop, a research library and a recital hall. "I am a long-time customer of Potter's and I really appreciate the professional and caring treatment I receive each time I walk in the door. It is such an asset to have this business in our community," said Pam Hentges, Assistant Principal Second Violinist with the NSO. "Potter's new recital hall benefits the entire community," added Glenn Donellan, Second Violinist with the NSO.

On behalf of its CRA motivated investors, the Fund invested in Potter's SBA 7(a) loan. The location of the business in Takoma Park, MD, is a moderate-income census tract and a Community Development Financial Institutions Fund ("CDFI Fund") Qualified Investment census tract. Potter's self-reported that the SBA 7(a) loan would support the creation/retention of 42 local jobs. ■

Sources:

Bhattarai, Abha. "Potter Violin Moves into Bigger Storefront." *Capital Business*. N.P., 17 June 2016. Web 27 July 2016.

Kraut, Aaron. "Potter Violins, a Bethesda Landmark for String Musicians, Gets Set to Move to Silver Spring." *Bethesda Beat*. N.P., 04 April 2016. Web 09 August 2016.

Valley, Jackie. "Why Investing in Autism Treatment is Seen as Crucial for Nevada." *Las Vegas Sun*. N.P., 06 March 2016. Web 22 August 2016.

www.pottersviolins.com
www.featsonv.org
www.swbehavior.com
www.sba.gov

Southwest Autism & Behavioral Solutions, Las Vegas, NV - Located in Clark County, NV, Southwest Autism Behavioral Solutions ("SABS") offers Applied Behavior Analysis ("ABA") services for children with autism. ABA, which uses techniques and principles to create positive change in behavior, is widely regarded as a safe and effective treatment for autism. Established in Las Vegas in 2009, SABS offers a range of services to assist in the implementation of ABA including social skill groups for children of all ages, telemedicine, behavior assessment and consultation, parent training, early intervention, home programming, community instruction and school consultation. In addition, SABS provides supervision for those pursuing graduate-level certification in behavior analysis.

Research has shown that children with autism fare better later in life if they receive frequent and intense early intervention. Moreover, autism advocates say that funding is crucial in Nevada, a state where services and providers are badly needed. The Nevada Commission on Autism Spectrum Disorders released its five-year strategic plan in December 2014 and identified "lack of services" as the most significant concern. According to Nicole Cavenagh, director of the Tuoro University Nevada Center for Autism and Developmental Disabilities, "there is a gross shortage of providers" in Nevada.

SABS serves children and their families locally and statewide. By investing in SABS' SBA 7(a) loan, the SBA Loan Fund has contributed to a positive social impact for the underserved in a CDFI Fund Qualified Investment census tract. ■

Impact Record

Including the Potter Violin Company and Southwest Autism & Behavioral Solutions, the Solomon Hess SBA Loan Fund has invested in 2,513 US-based small businesses since inception resulting in the creation and retention of 30,429 jobs throughout investors' communities nationwide.

SOLOMON HESS CAPITAL MANAGEMENT
431 Park Ave, Suite 401
Falls Church, VA 22046
WWW.SOLOMONHESS.COM

Solomon Hess
Capital Management
is proud to sponsor the
following conferences

27th Annual SRI Conference

Nov. 9-11, Denver, CO

Sponsor Table #53

CRA & Fair Lending Colloquium

Nov. 13-16, Las Vegas, NV

Sponsor Table #7

Contact Michelle Lai for information
mgolai@SolomonHess.com 703.466.0483

Managing Good Capital Well

Solomon Hess Capital Management (“Solomon Hess”) is an Investment Advisor located in Falls Church, Virginia with over \$500 million of assets under management.

Solomon Hess specializes in the small business and community impact sectors. Our investors include banking institutions of all sizes that are seeking Community Development Investment or Lending test credit within the Community Reinvestment Act (CRA) rules via exposure to SBA 7(a) related assets.

The Solomon Hess SBA Loan Fund LLC attempts to provide its investors with CRA credit related to their participation in the Fund. Investment decisions are not always exclusively based on the economic characteristics or investment merit of a specific asset. Certain CRA eligible securities sought by the Fund in specific geographies may not provide as great an economic benefit to the Fund as the same securities located in non-CRA geographies. The Fund may engage in transactions at times for reasons related to CRA considerations that may not be desirable from an investment standpoint. If one or multiple federal banking regulators, such as the OCC, FDIC or the Federal Reserve Board, were to deem an investment in the Fund as not qualifying for CRA credit, the impact to Fund investors could be material.